

West Virginia's Economy, Budget & Tax Structure

Roger Smith and Mark Muchow

Department of Revenue

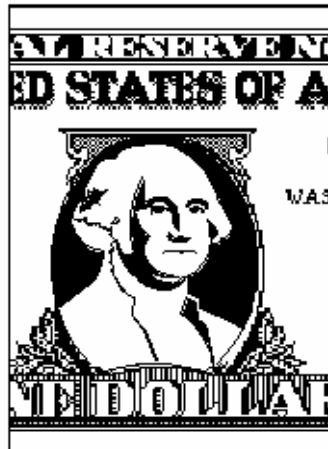
July, 6, 2006

Total Estimated Revenue FY 2007

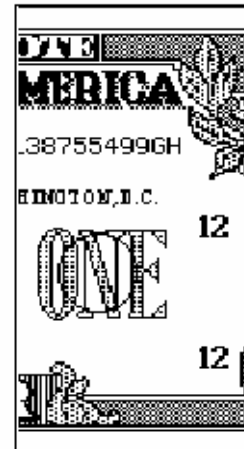
\$13.96 Billion



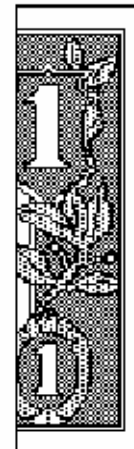
Special Revenue
Funds
26.94



Federal
Funds
39.44

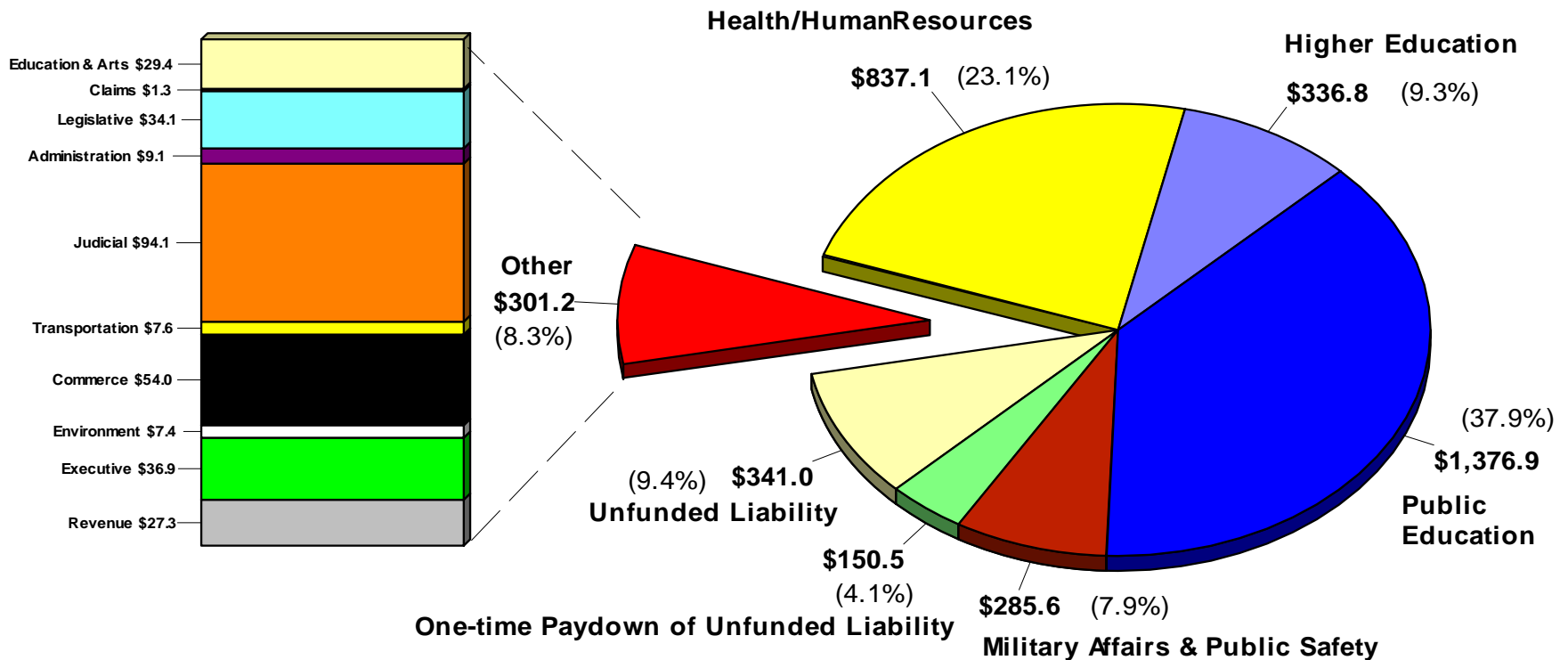


General
Revenue
26.34

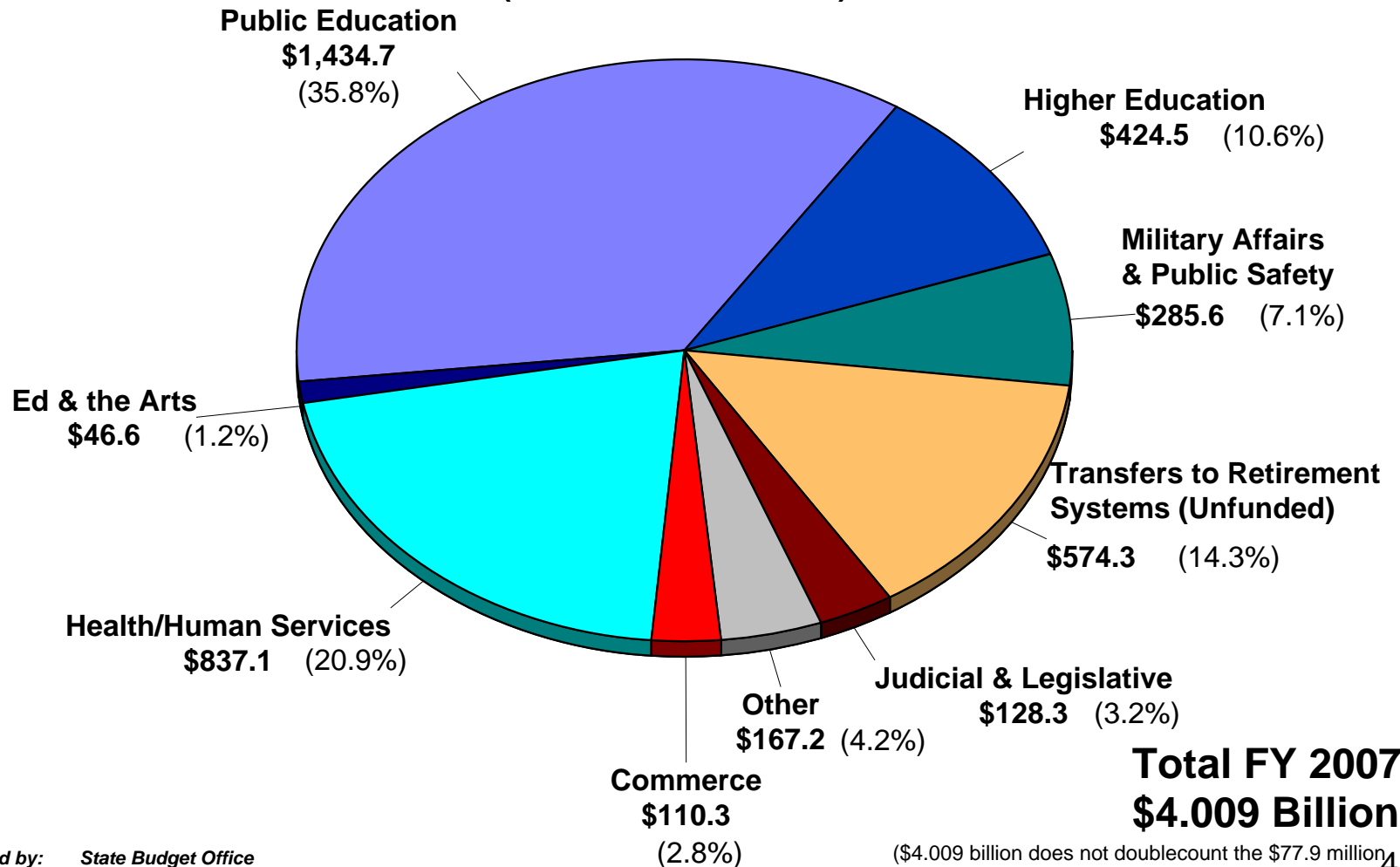


State
Road
7.44

General Revenue Fund Appropriations Fiscal Year 2007 (In Millions of Dollars)



Total Appropriations General, Lottery, & Excess Lottery Fiscal Year 2007 (In Millions of Dollars)



**Total FY 2007
\$4.009 Billion**

Five Year Financial Plan (estimated in millions)

FY 2007 - FY 2011

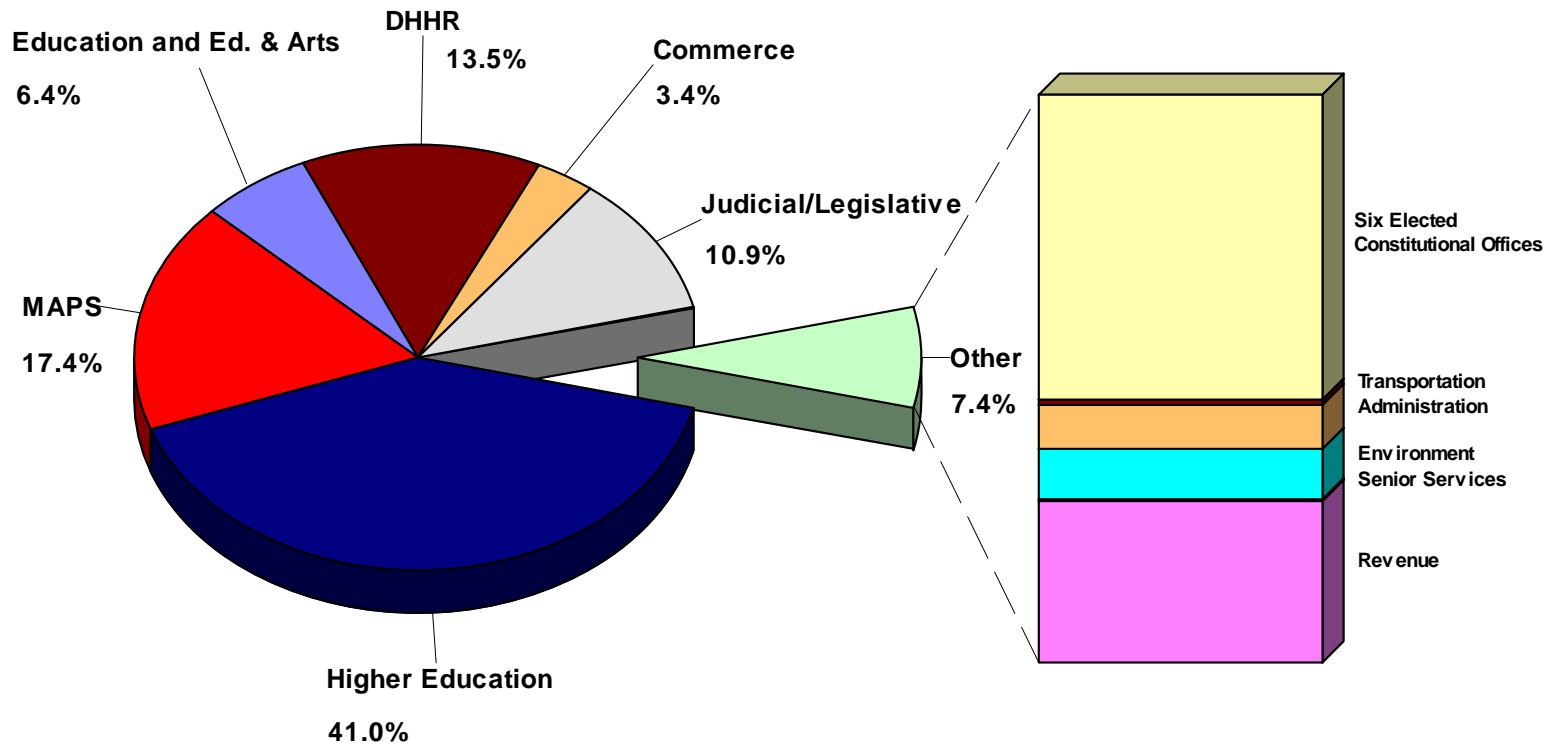
	Budgeted	Projected			
	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<u>Estimated Revenue</u>					
Total Available	4,008.8	+29.2	+69.4	+161.7	+103.0
 Expenditure Growth:					
Base Budget FY 2006	3,566.3				
Retirement System Contributions	0.1	13.0	-0.9	13.9	14.3
Public Employees Insurance Agency Premiums	0.0	27.6	33.0	49.7	82.7
State Aid to Schools	-7.2	22.3	17.8	17.6	-0.4
Medicaid	60.0	67.8	79.3	88.9	99.6
Correctional and Juvenile Facilities Operations	10.8	10.2	7.8	2.2	2.2
Unanticipated Expenditures/Program Enhancements	2.3	35.0	40.0	45.0	50.0
Public Education - Gap Fill (4 years)	25.9	21.3	20.9	0.0	0.0
Other*	116.5	12.8	9.9	8.9	8.9
Total Ongoing Expenditures	3,774.7	+210.0	+207.8	+226.2	+257.3
One-Time Surplus Transfers to Teachers Retirements	233.8				
Accumulated Balance	0.3	53.3	-85.1	-149.6	-303.9

*Other includes PROMISE Scholarship, Supreme Court, Public Education Statutory Increases and Enhancements, Behavioral Health, Tobacco Settlement Shortfall, Trooper Longevity and Enhanced Entry Salary, and annualization of November 1, 2005 Salary Increases.

Filled FTE Dollars

General Revenue Breakdown by Department

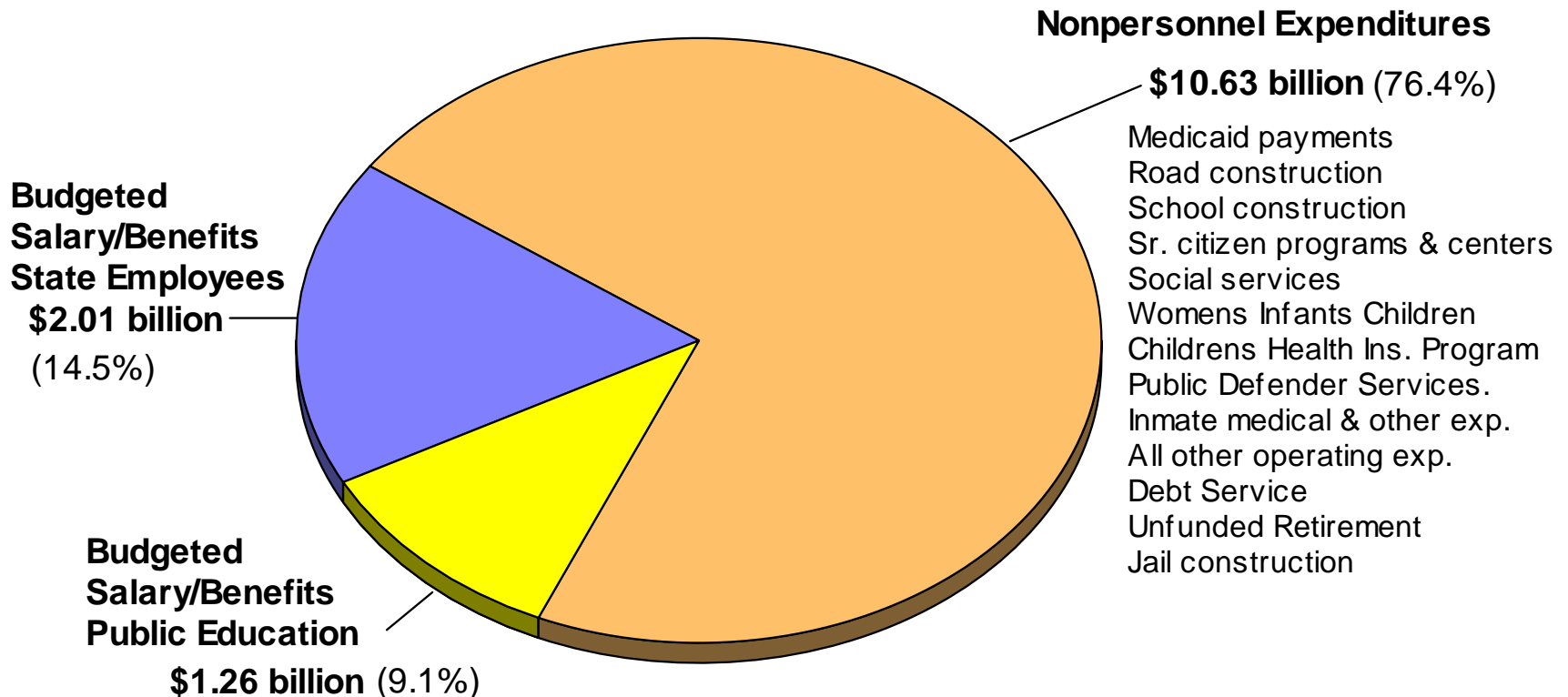
As of April 30, 2006



State Budget Office
 Department of Revenue
 State of West Virginia
 June 2006

Total General Revenue: \$549 Million

Total Estimated Expenditures All Funds Fiscal Year 2007



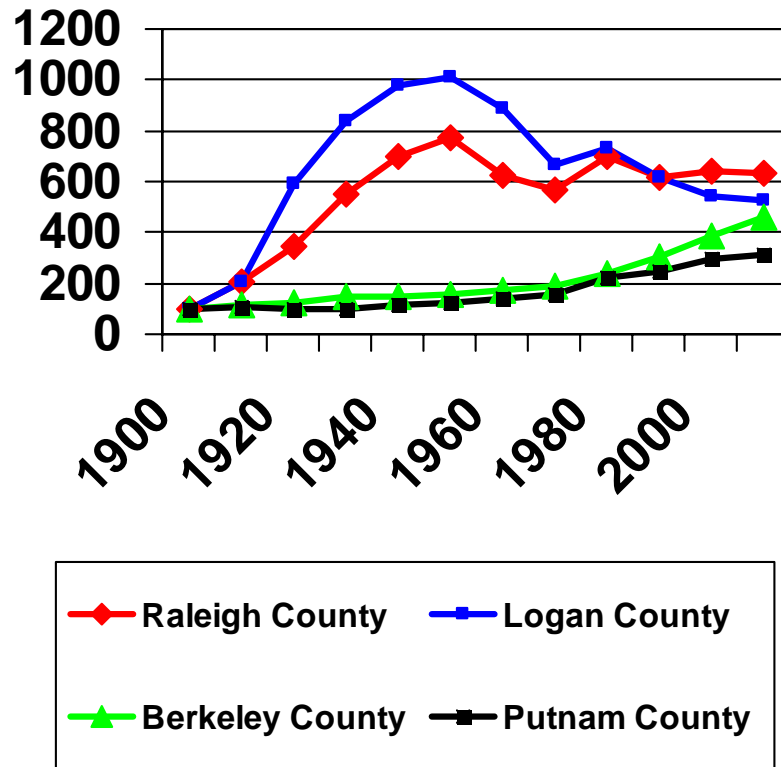
Total FY 2007
\$13.9 Billion

SUMMARY CONCLUSIONS

- **Tax Capacity** – Low per capita economic output & limited real property tax greatly constrain ability to fund government services
- **Demand** – Demand for government service is higher than average due to demographics, economic conditions and price signals (taxes)
- **Centralization** – Most services financed at the State level
- **Direct Taxation-Individuals** – Direct tax burden on individuals associated with combined personal income tax, sales tax and property tax is significantly below average for most income groups
- **Indirect Taxation-Individuals** – Indirect tax burden on individuals associated with various taxes imposed upon business activity is significantly above average.
- **Unfunded Liabilities** – Stretched finances contribute to unfunded liabilities, an uncompetitive tax structure & a weaker economy

West Virginia's Vital Statistics

Population Growth 1900-2004
Indexed to 1900



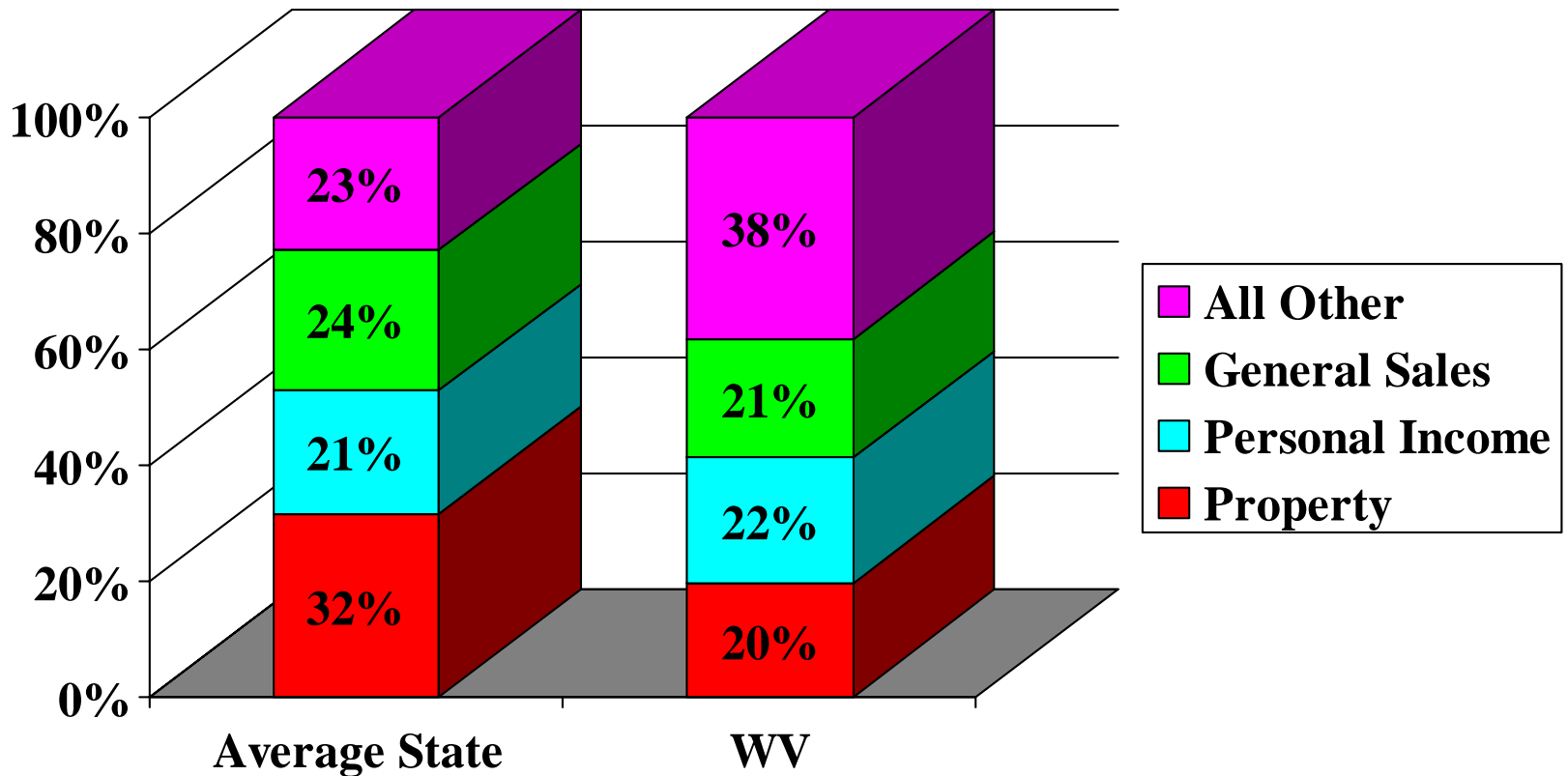
Tax Capacity Measures

- 47th in Per Capita Income
- 50th in Retail Sales per Household
- 47th in Average Home Price
- 50th in Employment as % of Population
- 50th in Population under 18
- Highest Median Age - 40

Per Capita State & Local Tax Revenues – 2003-04

<u>Tax Source</u>	<u>WV</u>	<u>All States</u>
General Sales	\$ 564	\$ 842
Personal Income	590	740
Property	541	1,094
General Corporate	100	116
Public Utilities	123	74
Other Taxes	826	608
<i>AVERAGE</i>	<u>\$2,744</u>	<u>\$3,474</u>

STATE & LOCAL TAX COLLECTIONS 2003-04



Other: corporate, gross receipt,
severance, utility, & excise.

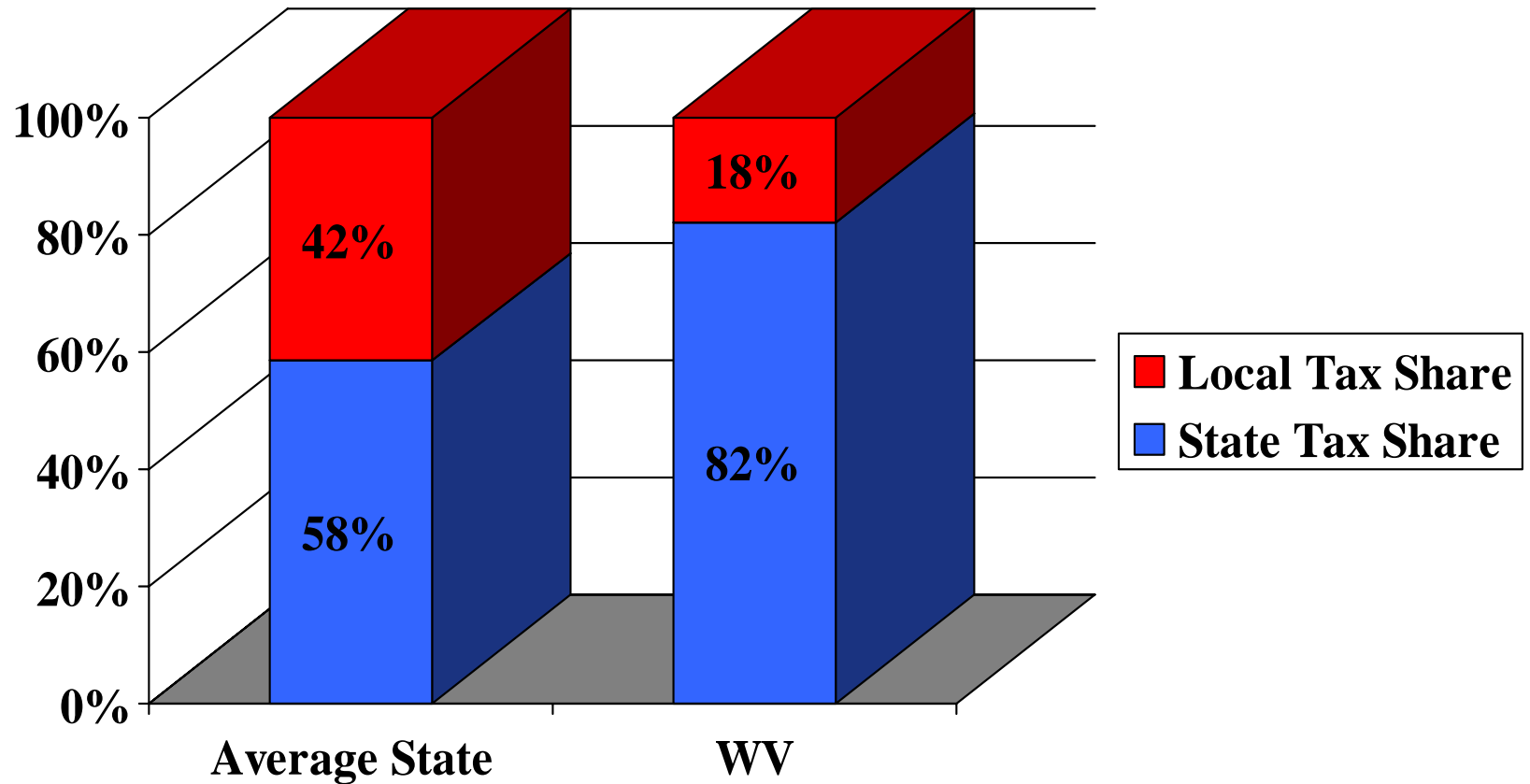
Per Capita State & Local Property Tax Collections

Sources: U.S. Census Bureau, State and Local Government Finances 2002 & IRS SOI-2003

<u>State</u>	<u>Per Capita</u>	<u>Rank</u>	<u>\$39,000 Family</u>
New Jersey	\$1,872	1	\$4,401
Connecticut	1,760	2	3,324
Maryland	993	16	1,915
Ohio	933	23	1,668
Virginia	921	26	1,568
Pennsylvania	885	28	2,435
North Carolina	653	38	1,240
<i>West Virginia</i>	<i>499</i>	<i>42</i>	<i>738</i>
Kentucky	483	45	1,022
<i>Average State</i>	<u>\$ 969</u>		<u>\$2,089</u>

STATE TAX SHARE VERSUS LOCAL TAX SHARE

State Government controls use of Regular Education Levy



Tax Burden Comparisons

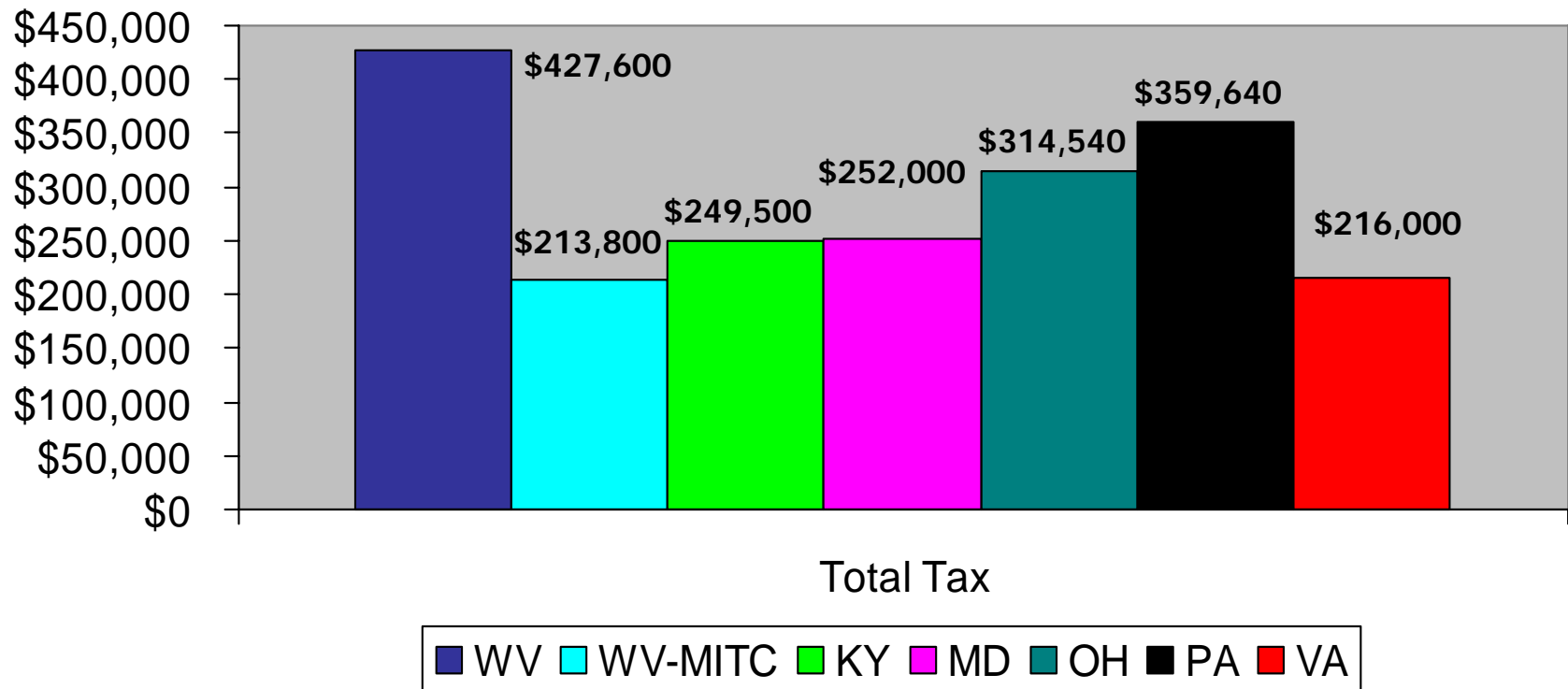
Indirect Business Taxes

- Corporation Net Income/Franchise Tax: Hypothetical Taxpayers
 - Manufacturing with and without Manufacturing Investment Tax Credit
 - Non-Manufacturing
 - \$0 Net Income Scenario
- Property Tax Comparisons: Hypothetical Taxpayers
 - Industrial Taxpayer – Personal Property without taxable inventory and with inventory
 - Industrial Taxpayer – Total Property Tax, including 50% real estate
 - Note on comparative burdens indexed to median state
 - Index = 100.0 = Median State burden
 - Index > 100.0 = Higher Tax Burden (e.g., 125.0 = 25% higher)
 - Index < 100.0 = Lower Tax Burden (e.g., 88.0 = 12% lower)

State Corporate Tax Burden-Hypothetical Manufacturer

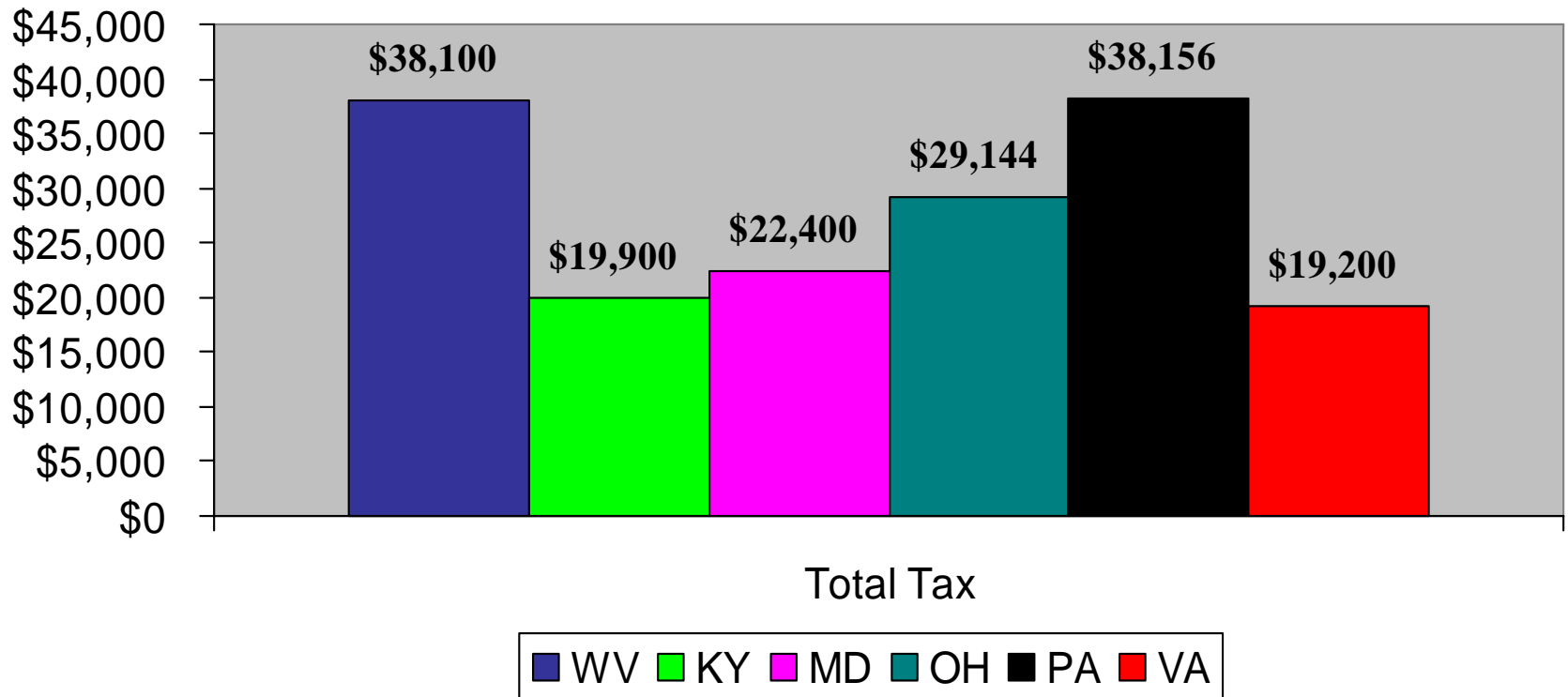
Gross Receipts: \$80 M, Taxable Income: \$3.6 M, Net Equity: \$14.8 M

Manufacturing Investment Tax Credit (MITC) makes WV more competitive.



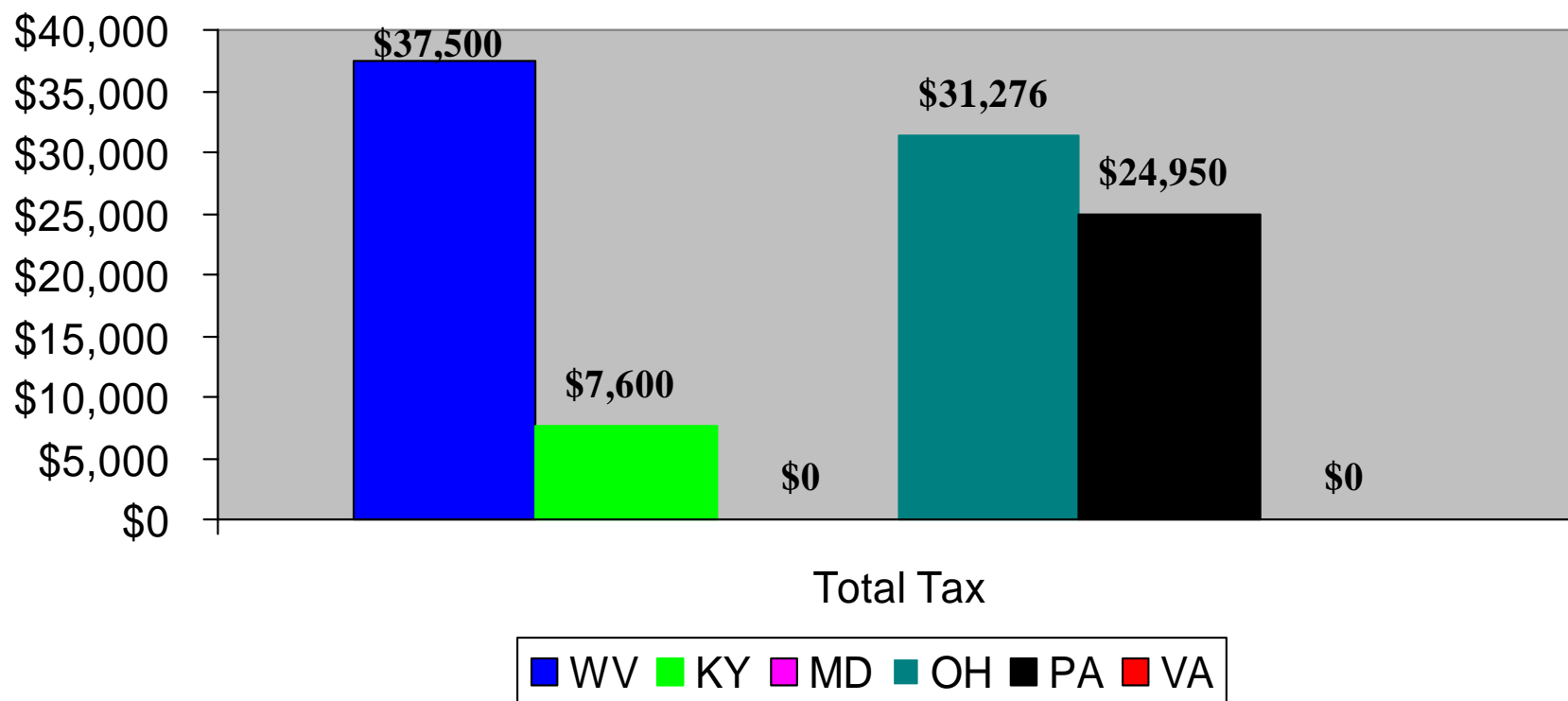
State Corporate Tax Burden-Hypothetical Non-Manufacturer

Gross Receipts: \$10 M, Taxable Income: \$0.32 M, Net Equity: \$1.24 M



State Corporate Tax Burden: Hypothetical Taxpayer With \$0 Net Income

Gross Receipts: \$8.0 M, Taxable Income: \$0 M, Net Equity: \$5.0 M



State Corporate Tax as % of Private Industry GSP

Source: U.S. Census Bureau, State Government Tax Collections 2005 and Bureau of Economic Analysis GSP 2004

* States with Minimum Taxes or Additional Franchise Taxes

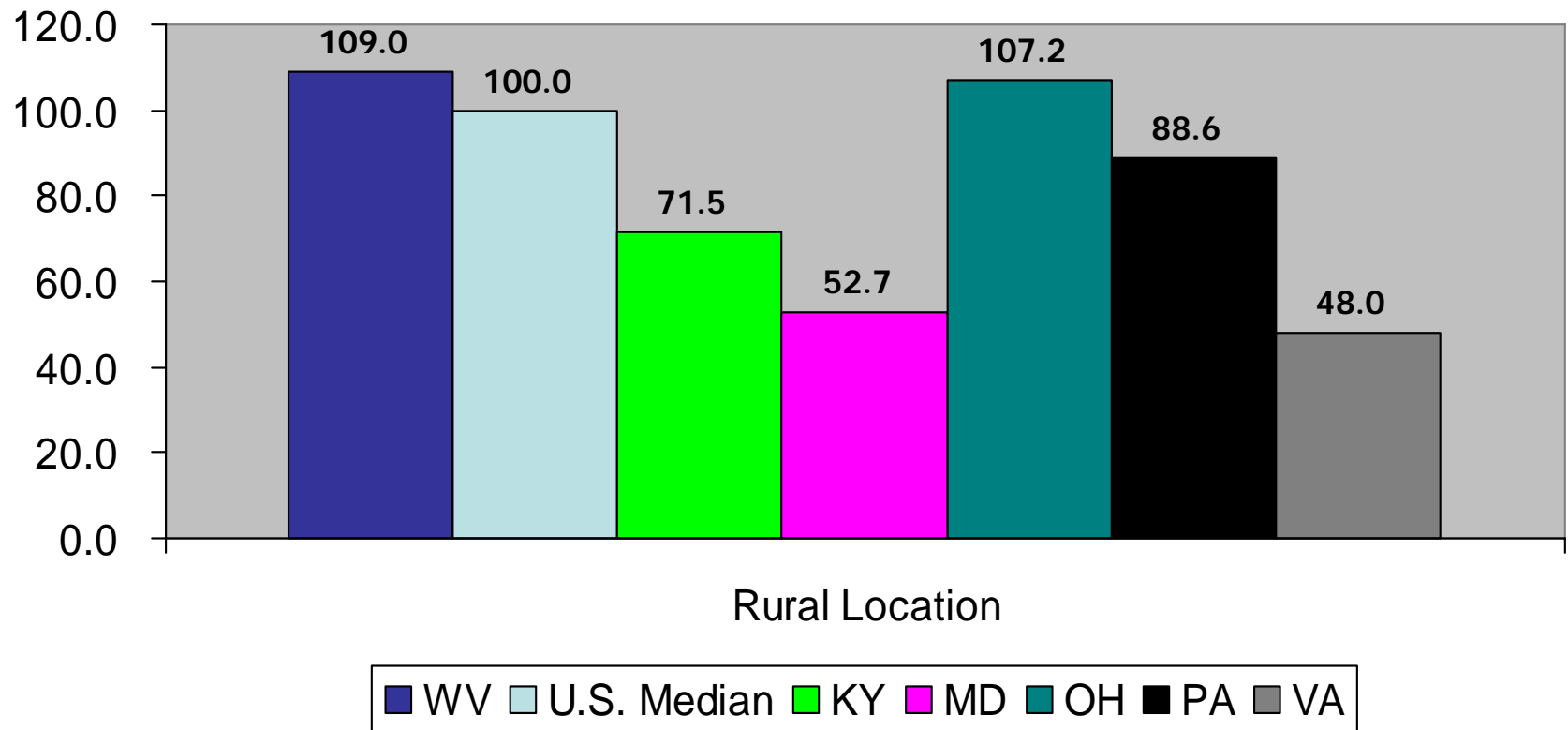
<u>State</u>	<u>Private GSP Share</u>	<u>Top Rate</u>	<u>Rank</u>
Alaska	2.15%	9.4%	1
New Hampshire*	1.01%	8.5%	3
<i>West Virginia*</i>	<i>0.68%</i>	<i>9.0%</i>	<i>5</i>
Pennsylvania*	0.60%	9.99%	7
North Carolina*	0.58%	6.9%	9
Kentucky*	0.53%	7.0%	11
Maryland	0.43%	7.0%	18
Ohio*	0.36%	8.5%	29
Virginia	0.22%	6.0%	41
<i>Average State</i>	<u><i>0.40%</i></u>	<i>Median</i>	<u><i>7.0%</i></u>

Total Industrial Property Taxes

50% Real Estate, 30% M&E & Fixtures, 20% Inventory

Source: Minnesota Taxpayer's Association: Payable Year 2002

Tax Year 2002: Average Class III Rate in WV

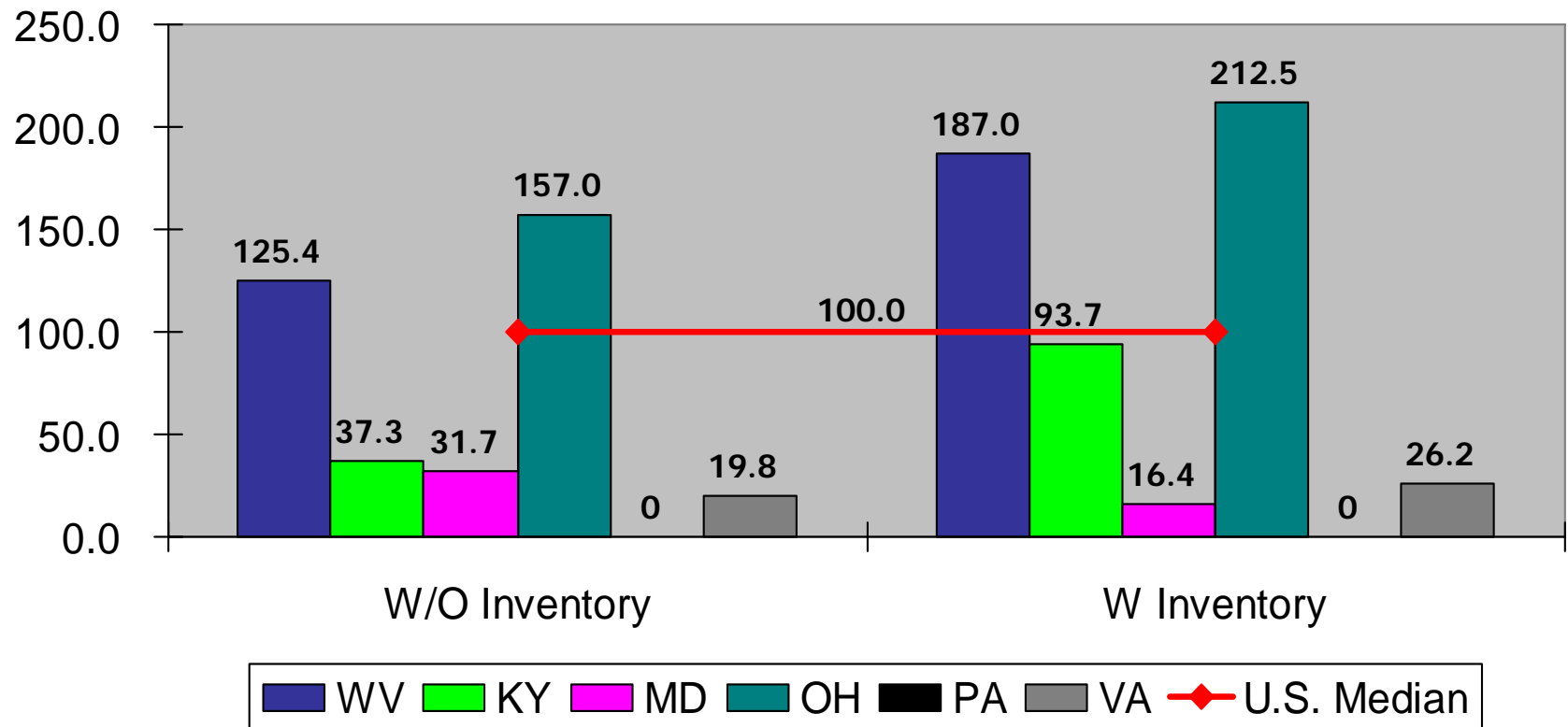


Industrial Personal Property Taxes

Example: 40% of Total Personal Property is Inventory

Source: Minnesota Taxpayer's Association: Payable Year 2002

Tax Year 2002: Average Class III Rate in WV



Local Property Tax Variance – 40% of Tax Voter Approved

Rural Class III Locations

Average Rate is 2.24%

<u>County</u>	<u>Rate</u>	<u>Variance</u>
Doddridge	2.854%	+ 27%
Brooke	2.817%	26
Cabell	2.770%	24
Tyler	2.729%	22
Harrison	2.638%	18
Pocahontas	1.382%	- 38%
Preston	1.381%	38
Pendleton	1.371%	39
Randolph	1.367%	39
Hardy	1.352%	40

Urban Class IV Locations

Average Rate is 2.93%

<u>City</u>	<u>Rate</u>	<u>Variance</u>
Barboursville	3.5196%	+ 20%
Sistersville	3.4788%	19
Huntington	3.4096%	16
Clarksburg	3.3876%	16
S. Charleston	3.1488%	7
Charleston	2.9072%	- 1%
Parkersburg	2.8980%	1
Morgantown	2.6384%	10
Elkins	1.8612%	36
Beverly	1.6544%	44

Tax Burden Comparisons

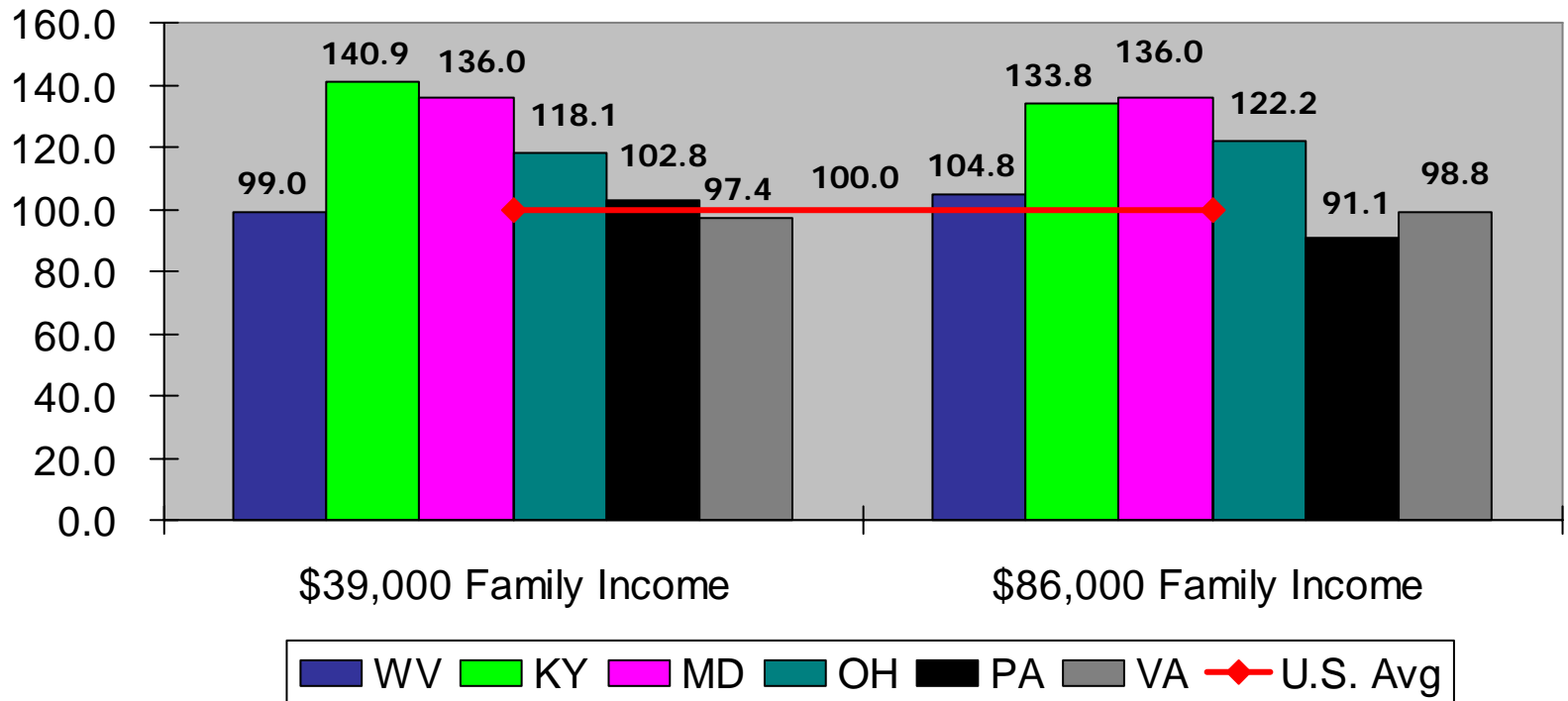
Direct Taxes on Individuals

- State & Local Personal Income Tax: Average Itemized Deduction
 - Family Income of \$39,000
 - Family Income of \$86,000
- State & Local Sales Tax: Tax Burden In Largest City of Each State
 - Family Income of \$39,000
 - Family Income of \$86,000
- Real Property Tax: Average Federal Itemized Deduction
 - Family Income of \$39,000
 - Family Income of \$86,000
- Note on comparative burdens indexed to average state (Median-Sales)
 - Index = 100.0 = Average State burden
 - Index > 100.0 = Higher Tax Burden (e.g., 125.0 = 25% higher)
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WV Personal Income Taxes

Itemized Deduction Near National Average

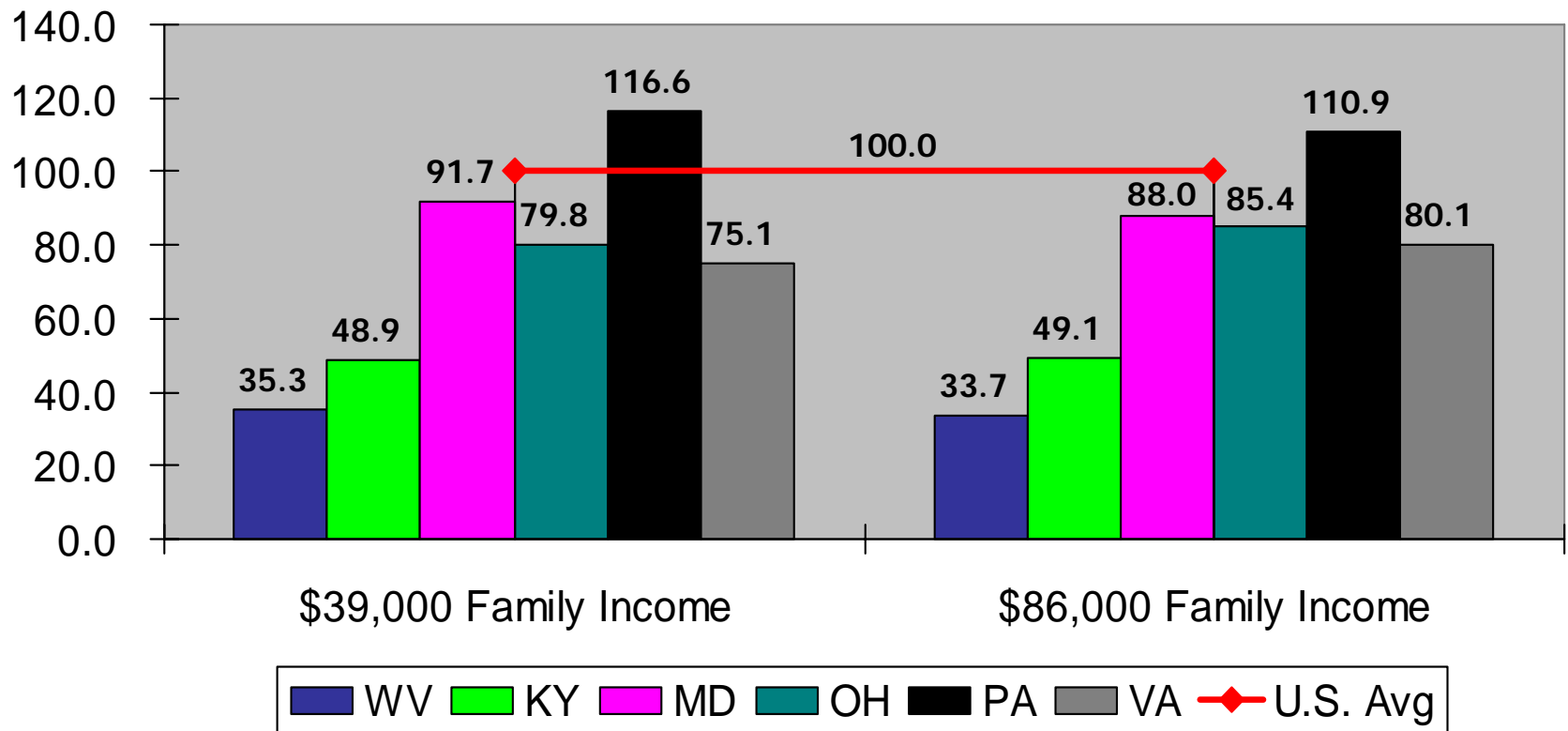
Source: IRS Statistics of Income - 2003



WV Residential Property Taxes

Itemized Deduction is One-Third of National Average

Source: IRS Statistics of Income - 2003



Average Direct Tax for \$39,000 Income Family

Source: IRS Statistics of Income-2003 and District of Columbia Comparative Study

<u>State</u>	<u>Income</u> <u>Tax</u>	+	<u>Real</u> <u>Property</u> <u>Tax</u>	+	<u>DC Study</u> <u>Sales</u> <u>Tax</u>	=	<u>Total</u>	<u>% WV</u>
Vermont	\$1,838		\$2,808		\$ 472		\$5,118	168%
Maryland	2,346		1,915		607		4,868	160%
Illinois	1,135		2,877		842		4,854	159%
Pennsylvania	1,773		2,435		520		4,728	155%
Maine	2,036		2,101		473		4,610	151%
U.S. Average	1,725		2,089		635		4,449	146%
Ohio	2,037		1,668		600		4,305	141%
Kentucky	2,430		1,022		557		4,009	131%
North Carolina	2,022		1,240		641		3,903	128%
Virginia	1,680		1,568		604		3,852	126%
South Carolina	1,881		985		514		3,380	111%
Arkansas	1,719		647		813		3,179	104%
West Virginia	1,708		738		606		3,052	100%
Alabama	1,548		533		715		2,796	92%
Louisiana	1,237		634		887		2,758	90%

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